Franchise Tax Board

ANALYSIS OF ORIGINAL BILL

Author:	Morrow	Analyst:	Rachel Coco	Bill Number:	SB 330
Related Bills:	See Legislative History	Telephone:	845-4328	Introduced Date:	February 19, 2003
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: PIT Standard Deduction/Double Amount For Taxable Years Beginning On Or After January 1, 2003

SUMMARY

This bill would double the amount of the standard deduction used to compute taxable income.

PURPOSE OF THE BILL

According to the author's office, the purpose of this bill is to decrease the tax liability of low-income taxpayers.

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effective immediately and apply to taxable years beginning on or after January 1, 2003.

POSITION

Pending.

ANALYSIS

<u>FEDERAL/STATE LAW</u>

Existing state and federal laws allow taxpayers who do not elect to itemize their deductions for the taxable year to deduct from adjusted gross income a basic standard deduction amount in calculating their taxable income.

Both state and federal laws provide annual indexing of the standard deduction. The 2002 state standard deduction for single or married filing separate taxpayers is $3,004 and $6,008 for married filing joint, head of household, or qualifying widow(er).

Existing state law provides an alternative minimum tax (AMT). AMT was established to ensure that a taxpayer who uses exclusions, deductions (i.e. the standard deduction), and credits does not completely escape taxation. As a result these tax preference items are not used in the calculation of AMT.

Board Position:			Department Director	Date
____ S	____ NA	____ NP	Gerald H. Goldberg	03/26/03
____ SA	____ O	____ NAR		
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THIS BILL

This bill would double the amount of the standard deduction used to compute a taxpayer's taxable income, with annual indexing thereafter.

Using projected 2003 standard deduction amounts:

Filing Status	Projected 2003 standard deduction	2003 standard deduction as proposed by SB 330
Single, Married Filing Separate	$3,091	$6,182
Married, Head Of Household, Qualifying Widow(er)	$6,182	$12,364

IMPLEMENTATION CONSIDERATIONS

Implementing this bill would require some changes to existing tax forms and instructions and information systems, which could be accomplished during the normal annual update.

LEGISLATIVE HISTORY

SB 1526 (Monteith, 1997/1998) contained language identical to this bill. SB 1526 failed to pass out of the Senate Revenue & Taxation Committee.

OTHER STATES' INFORMATION

The states surveyed include *Florida, Illinois, Massachusetts, Michigan, Minnesota,* and *New York.* These states were selected due to their similarities to California's economy, business entity types, and tax laws.

The 2002 standard deduction amounts provided by *Minnesota* and *New York* are as follows:

Filing Status	*Minnesota*	*New York*
Single	$4,700	$7,500
Married filing joint, Surviving spouse	$7,850	$14,600
Married filing separate	$3,925	$6,500
Head of household	$6,900	$10,500

Illinois, Massachusetts, and *Michigan,* do not provide a standard deduction.

Florida does not have a personal income tax therefore the standard deduction as discussed in this analysis is not applicable.

FISCAL IMPACT

This bill would not significantly impact the department's costs.

ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue losses:

Revenue Impact Double Standard Deduction **($ Billions)**			
Fiscal Year	2003-04	2004-05	2005-06
Revenue Loss	-1.3	-1.0	-1.0

This bill does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

Revenue Discussion

Current law requires that the standard deduction be adjusted for inflation annually. Under current law, the 2003 standard deduction is projected to be $3,091 for single and separate filing statuses, and $6,182 for married filing joint and head of household filing statuses.

This bill proposes doubling the standard deduction beginning with the 2003 tax year, with annual indexing thereafter.

The revenue impact was calculated using the microsimulation tax model. The 2003-04 fiscal year loss represents all of the loss attributable to the 2003 taxable year ($1 billion), and 35% of the 2004 taxable year ($300 million), which allows for changes to the employer withholding tables beginning in 2004.

ARGUMENTS/POLICY CONCERNS

Increasing the standard deduction would force taxpayers who typically would not be subject to the requirements of AMT to calculate and possibly pay AMT. However, even the taxpayers who would be required to pay AMT would receive a net benefit from this bill.

Generally, taxpayer's who anticipate earning income that is below the current minimum filing requirement adjust their withholding to avoid having to file a return for a refund. If the standard deduction were increased, additional taxpayers would fall below the filing threshold but would need to file a return to get a refund of their withholding. The author may wish to amend the statute to increase the filing threshold amounts to reflect the impact of this bill so that affected taxpayers could adjust their withholding accordingly. Department staff is available to assist the author's office to resolve this concern.

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